

United Stores Corporation

*Report to Stockholders
Year Ending December 31, 1935*

OFFICERS

GEORGE K. MORROW, *Chairman of the Board*

R. W. JAMESON, *President*

RANDOLPH CATLIN, *First Vice-President*

GEORGE WATTELEY, *Secretary and Treasurer*

BOARD OF DIRECTORS

RANDOLPH CATLIN	GEORGE K. MORROW
W. L. CUMMINGS	H. HOBART PORTER
R. W. JAMESON	WALTER B. RYAN, JR.
THOMAS H. McINNERNEY	EUGENE W. STETSON

UNITED STORES CORPORATION

605 BROAD STREET

NEWARK, N. J.

To the Stockholders of

APRIL 25, 1936.

UNITED STORES CORPORATION:

There are presented herewith the following financial statements of United Stores Corporation for the year ending December 31, 1935, with the report of Messrs. Price, Waterhouse & Co. thereon:

Balance Sheet

Statement of Income and Expense

Statement of Capital Surplus

On May 15, 1935, McLellan Stores Company came out of bankruptcy and its operations were taken over by its officers and Board of Directors. On November 20, the stockholders of McLellan Stores Company approved a plan of recapitalization with the result that that company now has outstanding 30,000 shares of cumulative 6% Preferred Stock, of which your Company owns 8,322 shares, and 733,205 shares of Common Stock of which your Company owns 380,089 $\frac{1}{2}$ shares. McLellan Stores Company operates 230 stores located in 30 states with net sales for the fiscal year ended January 31, of \$19,944,550. Net profits of operation for the twelve months ended January 31, 1936 (the company's fiscal year) were \$1,184,066.98, or equivalent, after allowing for a full year's dividend on the company's 6% Preferred Stock, to \$1.37 on each share of Common Stock outstanding. The company has resumed dividends on its 6% Preferred Stock and it is expected that during the course of this year it will commence the payment of dividends on its Common Stock. Your Company's investment in McLellan Stores Company, carried on the books at \$4,520,982.12, has a current market value of approximately \$5,500,000.

McCormick Stores Corporation is still in the process of a reorganization, but it is expected that reorganization will be completed this coming month and the Corporation taken out of bankruptcy. Your Board of Directors plans to issue to stockholders of United Stores Corporation a supplemental report with respect to McCormick Stores Corporation and United Stores Corporation's investment therein, as soon as the reorganization of McCormick Stores Corporation is completed and its operations returned to its officers and Board of Directors.

During 1935 your Company sold its remaining holdings of Cigar Stores Realty Holdings, Inc. 5 $\frac{1}{2}$ % Debentures at an excess over cost to the Company of \$614,954.09, and its remaining holdings of Preferred Stock of United Cigar Stores Company of America for \$219,242.79 in excess of the value to which the stock had been written down on the Company's books. These amounts have been carried to Capital Surplus. Tobacco Products Corporation of Delaware (of which company's stock your Company owns 62.9%) also realized \$512,713.39 on the sale of its holdings of Common Stock of United Cigar Stores Company of America, which investment had been written down to \$1.00 on the books of that company. The successful reorganization of United Cigar Stores Company of America seemed remote, and your directors felt that your Company could use, to better advantage, the funds obtained from the sale of its interests in that company.

As stated in the annual report to stockholders last year, American Tobacco Company on January 31, 1935 elected to commute the lease which was pledged to secure the 6 $\frac{1}{2}$ % Collateral Trust Debentures of Tobacco Products Corporation of New Jersey, all the capital stock of which Company is owned by Tobacco Products Corporation of Delaware. An agreement could not be reached at that time with the American Tobacco Company on the amount for which the lease was to be commuted, so an amount was paid over sufficient to redeem the Debentures at principal and accrued interest, and it was agreed to have a judicial interpretation of the lease to determine whether anything further was due from American Tobacco Company. The latter company claimed that under its construction of the commutation provisions of the lease nothing further was due from it; and Tobacco Products Corporation of New Jersey claimed that under its interpretation of the lease there was still due \$1,112,744.15. American Tobacco Company brought suit to obtain an adjudication that nothing further was due from it under the lease. The case was prepared for trial and would have been tried this month except that an agreement was reached with American Tobacco Company whereunder it is to pay Tobacco Products Corporation of New Jersey an additional amount of \$650,000, subject to the approval of the settlement by the stockholders of Tobacco Products Corporation of Delaware. Inasmuch as the latter company is controlled by your Company through ownership of 62.9% of its stock, your Board of Directors wishes the approval of the stockholders of United Stores Corporation to its voting its stock of Tobacco Products Corporation of Delaware to approve the settlement. The Directors recommend such approval. A proxy for your use in approving such action has been forwarded to you.

The directors have declared a dividend of \$3.00 a share on the Preferred Stock of the Company on account of the dividends accrued on that stock. The dividend will be payable on June 15 to Preferred Stockholders of record May 27.

For the information of the stockholders there is enclosed herewith a copy of the annual report of Tobacco Products Corporation of Delaware for the year ending December 31, 1935.

By order of the Board of Directors,

GEORGE K. MORROW,
Chairman.

UNITED STORES
BALANCE SHEET—

ASSETS

CURRENT ASSETS:

Cash in banks	\$ 1,321,834.55
Note receivable and accrued interest thereon	52,217.08
Receivable from Tobacco Products Corporation of New Jersey	314.46
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	\$ 1,374,366.09
OFFICE FURNITURE AND FIXTURES at nominal value.....	1.00

INVESTMENTS:

After write-down authorized by the Board of Directors as at May 31, 1933:

Tobacco Products Corporation of Delaware (see Note 1)—	
20,741.2529 shares of capital stock (62.9% of total outstanding) \$ 622,306.83	

(20,263.2529 shares as valued by the Board of Directors in 1933 at approximate book value of \$30 per share and 478 shares subsequently purchased at average cost of \$14,409.25).

The Union Tobacco Company—

24,795 shares Class A stock } 4,530 shares common stock } at nominal value	1.00
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(In accordance with the terms of a plan of liquidation approved by the stockholders of The Union Tobacco Company at a meeting held on March 2, 1936 the company will receive \$6,765 for this investment.)

At cost including fees and charges in connection with acquisition:

McLellan Stores Company—

19,603 shares 6% Preferred stock } 271,718 shares common stock }	4,520,982.12
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(In January 1936 pursuant to a plan of recapitalization of McLellan Stores Company the above securities were converted into 8,322 shares of new Cumulative Convertible 6% Preferred Stock \$100 par value (27.74% of total outstanding) and 380,089½ shares of common stock \$1. par value (51.84% of total outstanding)).

McCropy Stores Corporation, stocks and obligations (see Notes 2 & 3) 4,651,582.29

(In reorganization proceedings under Section 77B of the Bankruptcy Act)

 9,794,872.24

NOTE 1: The Company's investment in Tobacco Products Corporation of Delaware, parent company of Tobacco Products Corporation of New Jersey, is carried on the basis of the commutation value, as shown by the books of the New Jersey Corporation, of a former lease by the latter company to American Tobacco Company. In January 1935 the lessee commuted the lease but the exact amount which is payable thereunder is in litigation. The value of the investment in Tobacco Products Corporation of Delaware is contingent upon the outcome of this litigation as well as any taxes which may be payable upon the funds received from American Tobacco Company. (See accompanying letter from Chairman of Board to stockholders.)

 \$11,169,239.33

*To the Board of Directors of
UNITED STORES CORPORATION:*

We have made an examination of the balance sheet of United Stores Corporation as at December 31, 1935, and have examined accounting records of the company and other supporting evidence, including confirmations from explanations from officers of the Corporation.

In our opinion, based upon our examination, the above balance sheet and related statements of income and expense of the Corporation at December 31, 1935 and the results of its operations for the year.

New York, N. Y.
April 23, 1936.

5 CORPORATION

-DECEMBER 31, 1935

LIABILITIES

CURRENT LIABILITIES:

Accounts payable	\$ 172,368.75
Unclaimed dividends	3,031.17
Reserve for taxes (see Note 4)	37,815.12
Payable to Tobacco Products Corporation of Delaware	104.82
	<hr/>
	\$ 213,319.86

CAPITAL STOCK AND SURPLUS:

Capital stock:

\$6 Cumulative Convertible Preferred stock, without par value, preferred over Class A and common as to \$115 per share plus accrued dividends on dissolution—

Authorized —101,800 shares

Outstanding—101,495 shares at stated capital of \$2,537,375.00

NOTE—Preferred dividends have accumulated since August 15, 1929 less \$15.1875 per share paid on account. The arrears at December 31, 1935 amount to \$22.3125 per share totaling \$2,264,607.19

Class A stock without par value, convertible, preferred over common as to \$4.20 per annum non-cumulative and as to \$75 per share on dissolution—

Authorized —918,000 shares

Outstanding—915,979* shares at stated capital of 4,579,895.00

Common stock without par value—

Authorized—2,090,200 shares including 1,576,958½ shares reserved for conversion of preferred and Class A stocks

Outstanding, less in treasury—504,233* shares at stated capital of 252,116.50

*Including shares exchangeable for outstanding certificates of deposit.

Capital surplus, per statement attached \$3,628,003.47

Less—Deficit since May 31, 1933, per statement attached 41,470.50

3,586,532.97

10,955,919.47

NOTE 2: In connection with the plan of reorganization of McCrory Stores Corporation dated June 15, 1935 as modified, the company has underwritten \$4,552,000 principal amount of Fifteen-Year 5% Sinking Fund Debentures at 97½, and an offering to common stockholders of McCrory Stores Corporation of 266,098 shares of new common stock at \$10.75 a share.

NOTE 3: The Company is contingently liable for professional expenses in connection with the McCrory Stores Corporation reorganization.

NOTE 4: The Company's Federal income tax returns for the years subsequent to 1931 are subject to final review by the Department of Internal Revenue with particular reference to the cost basis of securities sold.

11,169,239.33

er 31, 1935 and of the statements of income and deficit for the year 1935. In connection therewith, we the depositaries in respect of cash and securities owned by the corporation and obtained information and and deficit together with and subject to the notations appearing thereon, present the position of United Stores

PRICE, WATERHOUSE & Co.

UNITED STORES CORPORATION

STATEMENT OF INCOME AND EXPENSE AND OF DEFICIT SINCE MAY 31, 1933 FOR THE YEAR ENDING DECEMBER 31, 1935

Income:

Interest on Tobacco Products Corporation of New Jersey 6½% collateral trust debentures for January (all of the debentures were called for payment on January 31, 1935)	\$ 30,314.92
Interest on notes and advances	15,467.18
	\$ 45,782.10

Expenses:

Stock transfer and custodian expenses	\$15,322.95
General and administrative expenses	62,197.55
Interest on bank loans	11,236.54
Franchise and capital stock taxes	14,284.00
	103,041.04
Net loss for the year	\$ 57,258.94
Deduct—Earned surplus at December 31, 1934, per report to stockholders for that year	15,788.44
Deficit at December 31, 1935, per balance sheet	\$ 41,470.50

NOTE: Fees and charges in connection with the acquisition of stocks and obligations have been charged direct to the investment account.

UNITED STORES CORPORATION

**STATEMENT OF CAPITAL SURPLUS
FOR THE YEAR ENDING DECEMBER 31, 1935**

Capital surplus at December 31, 1934, per report to stockholders for that year	\$2,793,080.37
<i>Add</i> —Excess of proceeds from sale of securities over book value thereof:	
Cigar Stores Realty Holdings, Inc. 5½% debentures	614,954.09
Certificates of deposit for United Cigar Stores Company of America preferred stock	219,242.79
Tobacco Products Corporation of New Jersey 6½% collateral trust debentures....	444.85
Tobacco Products Corporation of Delaware capital stock	289.46
	<hr/>
	\$3,628,011.56
<i>Deduct</i> —Excess of cost over stated value of 25½ shares of common stock purchased	8.09
Capital surplus at December 31, 1935, per balance sheet	<hr/> <hr/> \$3,628,003.47

